SCOTT PAPER LIMITED ANNUAL REPORT 1969

CONTENTS

Members of our sales organization map strategy for a forthcoming program. Total thought is the objective of regularly scheduled meetings and seminars in all divisions.

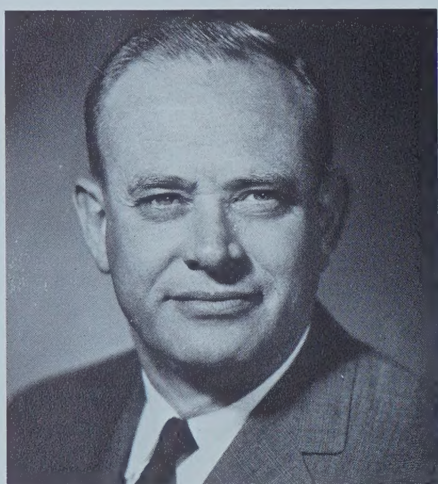
Ce rapport annuel est publié en français et en anglais. Si vous désirez en obtenir un exemplaire additionnel, prière d'aviser le Secrétaire.

FINANCIAL SUMMARY

	1969	1968
Net sales	$35,789,027	$34,133,043
Income before taxes	3,268,117	3,019,586
Income taxes	1,700,000	1,585,000
Income after taxes	1,568,117	1,434,586
Depreciation	1,312,089	1,223,178
Interest expense	333,647	211,189
Capital expenditures	4,797,470	2,187,542
Income reinvested in the business	848,117	794,586
Dividends	720,000	640,000
PER SHARE		
Income before taxes	$ 4.09	$ 3.77
Income after taxes	1.96	1.79
Cash flow	3.89	3.39
Dividends paid	.90	.80
Shareholders' interest	23.75	22.69
Number of shares outstanding at year end	800,000	800,000

SCOTT PAPER LIMITED

HEAD OFFICE: New Westminster, British Columbia
PLANTS: New Westminster, British Columbia and Crabtree, Quebec
SALES OFFICES: Vancouver, Winnipeg, Toronto, Montreal and Dartmouth, Nova Scotia



Arthur F. Armstrong

TO OUR SHAREHOLDERS AND EMPLOYEES:

I am pleased to report that in 1969 Scott Paper Limited set new sales and per-share earnings records. Consolidated net sales increased 4.9% and per-share earnings 9.5% over 1968.

The principal factors behind the 1969 performance include a healthy rate of increase in the Canadian market for consumer and industrial sanitary paper products, which made possible a 10% case volume increase for the company's packaged product lines. A high level of manufacturing, marketing, and distribution efficiency was achieved in the various company divisions to meet the increased demand: close to capacity operations were maintained at both manufacturing plants throughout the year. Another factor was our ability to offset a portion of the abnormally high rate of cost increases through better pricing on some products.

The net return on sales after taxes rose to 4.4% in 1969 from 4.2% in 1968. However, the return on sales remains well below the 5½%-6% levels achieved in prior years. The return on equity after taxes increased to 8.2% from 7.9% in the prior year, but remains below the levels achieved in past years and those required to keep the company fully competitive for new capital from investors and lenders.

Of particular significance in 1969 was the decision to add a fourth paper machine at Crabtree, Quebec, together with expanded converting and distribution facilities. This $9 million program is currently on schedule, with completion anticipated late in the current year. When in full operation in 1971, the annual capacity of the Eastern Manufacturing Division will rise from 33,000 to 48,000 tons of paper. Also, new high-speed equipment and other improvements will yield further gains in product qualities and unit costs. The expanded facilities will also add capacity for fast growing new product lines, including disposables.

Harold A. Shaub resigned from the Board of Directors shortly after his appointment as an Executive Vice-President of the Campbell Soup Company, Camden, New Jersey. In July, 1969 Mr. Gilbert C. Clarke, President and General Manager of Standard Brands Limited, Montreal was appointed to fill the vacancy on the Board. We are deeply indebted to Mr. Shaub for his great contributions to the company's growth.

At the supervisory and executive levels, a number of individuals were promoted to larger responsibilities, including Mr. George L. O'Leary, Executive Vice-President and Director, who has also assumed the new post of Chief Operations Officer. We now have in management, reporting to the President, one group which has the primary responsibility for planning and directing the company's growth, as well as a group reporting to the Executive Vice-President with the main responsibility for current operating results.

As we enter 1970 and a new decade, we face many difficult challenges, including:

First, the high rate of inflation in Canada, accompanied by rapid cost and price escalation. This situation poses a most serious threat to the sound growth

of both the nation's economy and our company. We have pledged the company's cooperation in the national effort to control inflation. If the current program, directed by the Federal Prices and Incomes Commission, is to succeed we believe that the full cooperation of all levels of government, of organized labour's leadership, of wage and salary earners, of consumers, as well as the pledged cooperation from the business groups, will be required.

Second, the abatement of air and stream pollution. This important effort continues to occupy the close attention of company management. We are working with appropriate government authorities in both Quebec and British Columbia in this endeavour. Several major expenditures have been approved and are in operation or under way at both plant locations. More are under study currently. Scott Paper Limited recognizes its duty and responsibility to participate fully in any feasible effort to reduce environmental pollution.

The immediate outlook for the company is for at least the same rate of sales growth as that achieved in 1969. While the company's part in the Prices and Incomes Commission's attack on inflation may limit profit growth in 1970, we have specific plans to improve productivity and profitability in future years.

I believe that the combination of talent and youth represented in our management group will provide strong and effective direction of the company's future development and progress.

The confidence of shareholders in the continued success of the company is warmly appreciated.

For the Board of Directors,

March 12, 1970 A. F. Armstrong, *President*.

Responsible for the operations of the business are George L. O'Leary, Executive Vice-President and Director (right); Peter J. Peters, Comptroller and Secretary (left); Douglas Holme, Assistant Vice-President and Director of Manufacturing; and Robert T. Stewart, Vice-President, Marketing.

W. Carl Carlson, Treasurer and Assistant Secretary, exchanges views with the Director of Corporate Personnel, W. Michael Ferrie.

HERE COMES TOMORROW

Today's generation has come to know Scott products for their dependable quality. Scott will be a part of their life tomorrow, too, by keeping pace with the continued desire for better living.

OPERATING REPORT

Scott Paper Limited's revenues, sales volumes, and number of customers reached record levels in 1969. It was a year of progress and achievement throughout the company, as the people in our sales and marketing, manufacturing, service, and financial divisions responded to the faster pace of the year with enthusiasm.

Only in two areas was our sales growth limited. With both mills operating near capacity, planned development of both the export and fine paper division sales was deferred, to provide tonnage for the greatly increased packaged product sales.

The company's gains in the packaged paper products market resulted from sound planning accompanied by increasing financial return on the recent capital investment programs, and on new product development and further innovation in established brands.

Our research and development activities, packaging, and advertising programs are devoted to providing ever better values and qualities for consumers and to ensuring that the gains made in 1969 will be maintained in the future.

FINANCIAL RESULTS: THE RECORD OF A GOOD YEAR

Income before taxes increased by 8.2% over 1968 to \$3,268,117. After-tax earnings for the year amounted to \$1,568,117, or \$1.96 per share, compared to \$1,434,586, or \$1.79 per share, in 1968.

Capital expenditures for the year of \$4,797,470 were financed by funds generated through company operations and an increase of \$2,600,000 in the long-term bank loan. Approximately \$3,450,000 of these capital expenditures was expended in 1969 on the \$9,000,000 expansion program at the Crabtree, Quebec plant. A long-term capital loan of \$6,000,000 was arranged with our bankers for this expansion and is to be repaid in varying amounts between 1971 and 1974.

As indicated to shareholders in our 1968 annual report, the company changed its method of reporting earnings to the "deferred tax" basis. This change results in deferred income taxes in 1969 of \$190,000 shown under the heading "Non-Current Liabilities" on the Statement of Financial Position and as a charge against income on the Statement of Income. These deferred income taxes will be available in future years if capital cost allowances for income tax purposes are less than the depreciation provided in the accounts for those years.

Dividends were paid at the rate of \$.90 per share in 1969 compared to \$.80 per share paid in 1968. This marks the 39th consecutive year in which the company has paid dividends to shareholders.

On May 1, 1969, arrangements were completed to list the company shares for trading on the Montreal Stock Exchange. The shares are now listed on Toronto, Montreal and Vancouver Stock Exchanges. These listings on the three major exchanges in Canada should provide greater versatility and distribution in the trading of company shares.

MARKETING EFFORTS YIELD 10% INCREASE IN PACKAGED PRODUCT VOLUME

An increase in excess of 10% in consumer and industrial packaged product volume was largely responsible for the overall increase in net sales for the year.

The growth in consumption of paper products in home and industry continued, buoyed both by increasing urban population and improved per capita use.

Scott's gains came also as a result of a wider accept-

Lady Scott
Lady Scott
CAMELLIA PINK

Right: William M. Mattice, Director of Quality Control.

Below left: Norman A. Kelly, President and John J. Herb, Vice-President of Scott subsidiary, Westminster Paper Company Limited.

Lower left: New product introductions in 1969.

ance by the individual housewife and buyers for industry. New levels of distribution, too, were realized on consumer packaged products in retail stores throughout Canada and on industrial products through Scott distributors.

The influence of our consumer packaged products sales organizations, rated among the best in our industry, played a major role in the progress made in 1969.

The consumer division completed its distribution of both VIVA TOWELS and CONFIDETS SANITARY NAPKINS to the national level during the year. Trade and consumer reaction to these products was most encouraging.

Growing demand for tissues and towels highlighted the year for the industrial division. Increases in travel, in dining out, and in the provision of medical care were factors in the division's higher sales.

Although the sales growth of our printing paper and export tonnage was deferred for capacity reasons, these areas should provide a good balance in our diversified marketing programme over the longer term.

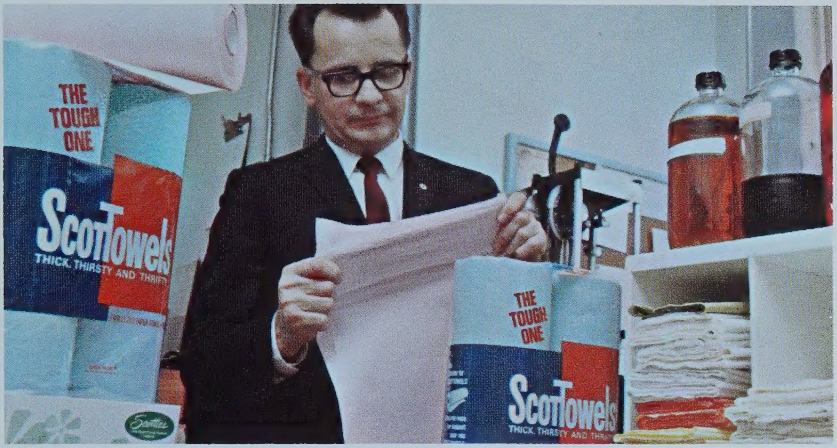
Sales of disposable products by our subsidiary, Westminster Paper Company Limited, also showed gains. The pioneering work done in research and development will help us tap this high potential area.

The support of our customers, distributors, and suppliers played a major role in our progress. Maximum effort will be maintained to warrant this valuable cooperation in the future.

MANUFACTURING MEETS A CHALLENGING YEAR

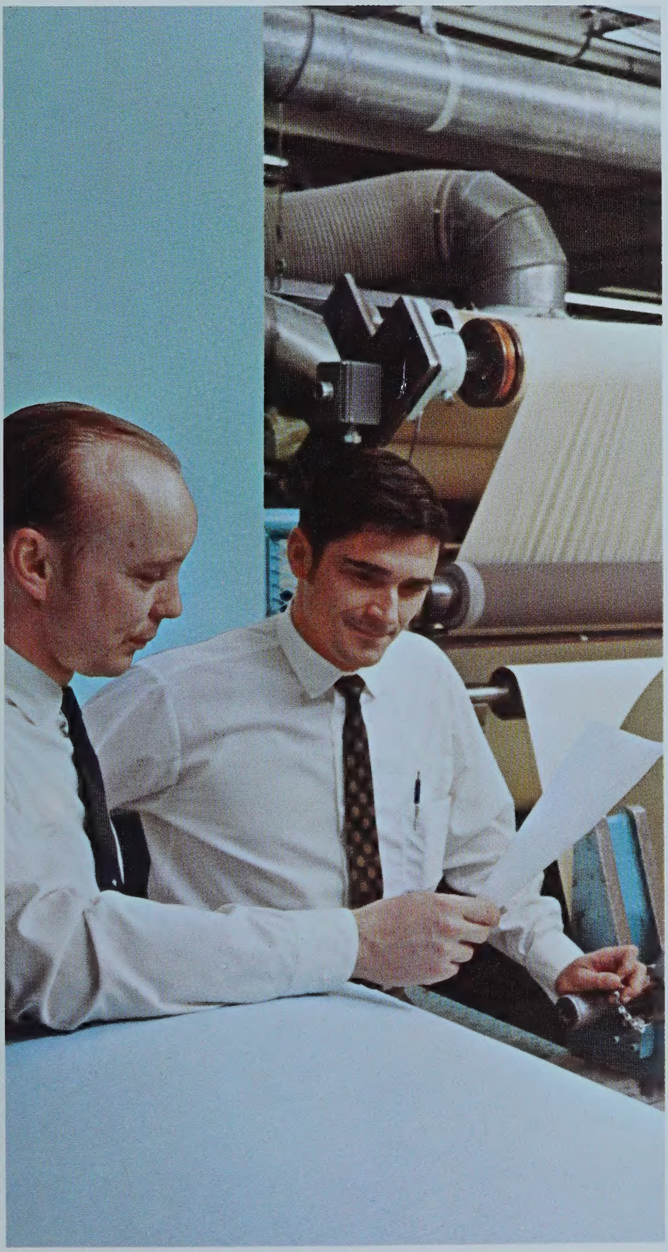
1969 was a challenging year for the Manufacturing Division and its people.

Unusually severe weather conditions in January resulted in excessively high operating costs for the Western Division, in terms of machine efficiency, mainten-



Lower left: G. Vernon Forster, General Manager, Western Manufacturing and John H. Possa, Operations Manager.

Lower right: Bernard A. Goulet, Assistant Secretary and General Manager, Eastern Manufacturing; John F. Philip, Operations Manager (left); and Horace F. Winchell, Vice-President, Engineering and Manufacturing Development (right).



Donald J. Tanner, Marketing Manager, Industrial Sales; H. Peter Sanagan, Assistant Vice-President, Consumer Products; James C. Boyle, Director of Sales, Industrial; and Robert B. Mackay, Group Products Manager.

David H. Stowe, Regional Manager, Consumer Sales, Eastern Canada.

Our wide range of industrial products: consumers accustomed to quality in the home create a growing demand for Scott products in out-of-home environments.

ance expense and wood costs. Both Eastern and Western divisions felt the impact of the current inflationary spiral, particularly in our major raw material, chemical pulp as well as in wage costs and other expenses. However, gains in paper machine and finishing efficiencies continued to be made at both Crabtree and New Westminster plants, and these improvements were essential to the year's high production achievement.

In the east the major expansion program is progressing on schedule and within estimates. The new 88,000 square foot distribution facilities were completed in September and are being fully utilized, with a resulting lowering of costs over the use of public facilities.

The most significant development, however, is the addition of a fourth paper machine which is scheduled to start up in the fourth quarter of 1970. The machine has a rated speed of over 3,500 feet per minute and will increase our tissue making capacity by 15,000 tons per annum.

The installation of a natural gas fired boiler at our Western plant, at a cost in excess of $100,000, significantly reduced the emission of atmospheric pollutants. Coincident with this installation the B.C. Research Council was commissioned to make an extensive study of the air environment in the area of the plant. This report, an encouraging one, has been received and we are operating well within regulations. Similar steps have been taken at our Eastern plant.

With respect to the rivers on which the British Columbia and Quebec plants are located, major in-plant process improvements have been installed at both operations. The result has been a significant improvement in mill discharge control. Some problems, of an esthetic and nuisance nature are awaiting feasible solutions. We are in frequent consultation with the respective provincial authorities and expect further improvements in both our current and longer range performance in the important area of pollution abatement.

A SIGNIFICANT YEAR FOR SCOTT PEOPLE

A very high value is placed on the importance of each of our 1,200 people. The company takes pride in the fact that its sales growth has provided both steady and increasing employment since its founding.

To further emphasize development of our human resources, the appointment of a Director of Corporate Personnel was made in 1969. Working with the plant personnel managers and division heads, a more meaningful program of recruiting, training and development was inaugurated.

For the most part, the company operated on two-year wage contracts negotiated in 1968. The company has enjoyed excellent relationships with its people and with representatives of its Labour Unions for many years. A continued emphasis was placed, through 1969, on furthering this mutual understanding.

The safety record of our Crabtree, Quebec plant in 1969 was good. A percentage reduction of 36% was achieved in the number of accidents reported to the Workmen's Compensation Commission compared to 1968. Accident frequency rates at both plants were comparable with the best in the paper industry.

The relative youth and number of years of company experience of our present management team, many of whom are pictured in this report, is evidence of our philosophy of development and promotion from within.

As we enter a new decade, I am confident that our total organization possesses the knowledge and dedication to realize the company's future objectives.

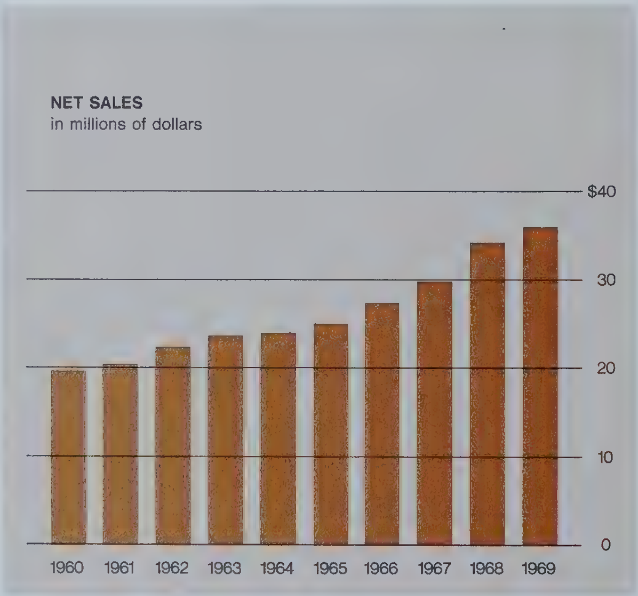
George L. O'Leary

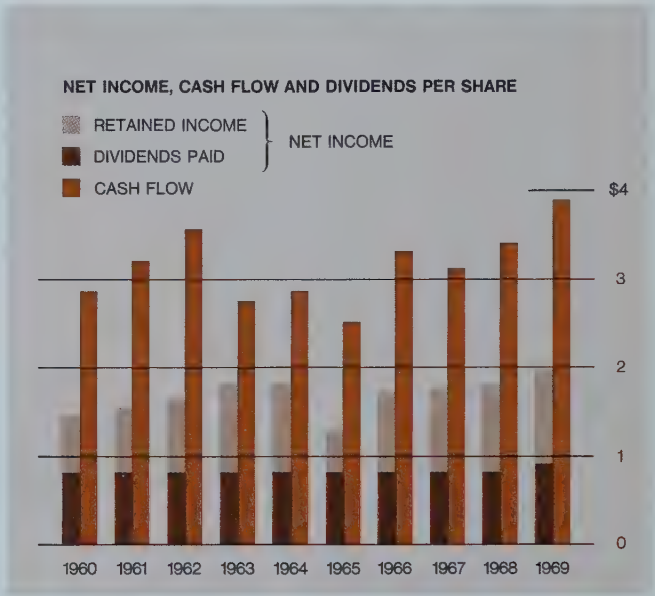
G. L. O'Leary,
Executive Vice-President

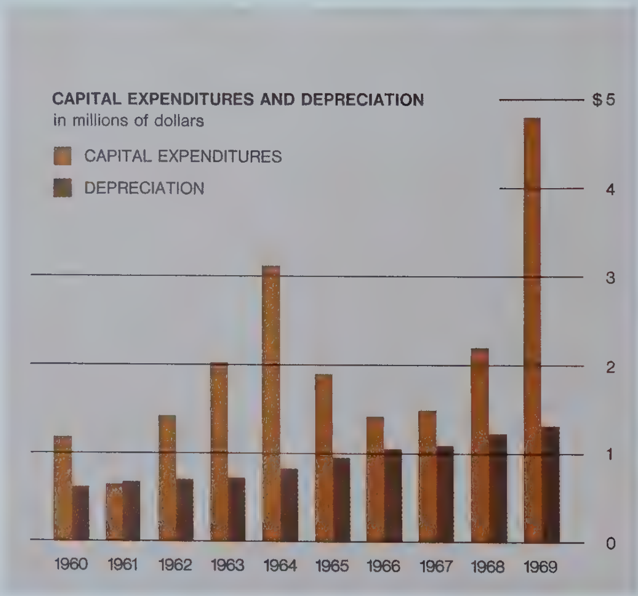
March 12, 1970

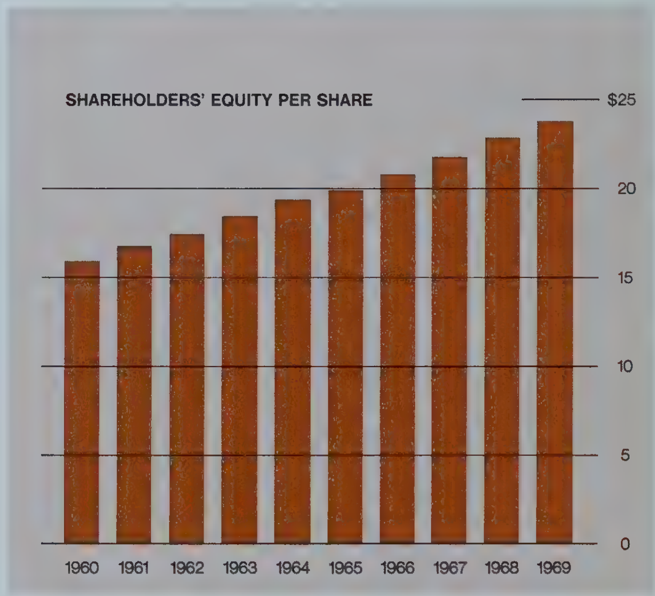

WHAT IS
VIVA?
NEW


Super
PUREX
Super
PUREX
Super
PUREX
SCOTT SUPER
1500
SCOTT
FAMILY
NAPKINS
0604
EMBASSY
SERVIETTES
MARQUE 0613
Scotkins
Scott
TOWELS
SCOTT
DISPENSER
NAPKINS
Scott
PERF-EMBOSSED
SINGLEFOLD
TOWELS
Scotties
PAPIER DE TOILETTE
ENTREPLIE
SCOTT
INTERFOLD
TISSUE
Scotkins
SCOTT
Scott
SINGLEFOLD
TOWELS
Scott
SINGLEFOLD
THRIFTowels
NATURAL


NET SALES
in millions of dollars
$40
30
20
10
0
1960 1961 1962 1963 1964 1965 1966 1967 1968 1969


NET INCOME, CASH FLOW AND DIVIDENDS PER SHARE
RETAINED INCOME
DIVIDENDS PAID
NET INCOME
CASH FLOW
$4
3
2
1
0
1960 1961 1962 1963 1964 1965 1966 1967 1968 1969


CAPITAL EXPENDITURES AND DEPRECIATION
in millions of dollars
CAPITAL EXPENDITURES
DEPRECIATION
$ 5
4
3
2
1
0
1960 1961 1962 1963 1964 1965 1966 1967 1968 1969


SHAREHOLDERS' EQUITY PER SHARE
$25
20
15
10
5
0
1960 1961 1962 1963 1964 1965 1966 1967 1968 1969

FINANCIAL REVIEW

TEN YEAR REVIEW	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Sales and Earnings				*(thousands of dollars except Per Share)*						
Net sales	$35,789	34,133	29,894	27,303	25,012	23,807	23,545	22,286	20,046	19,729
Depreciation	1,312	1,223	1,079	1,063	968	827	757	696	664	617
Interest expense	334	211	243	325	253	127	46	22	70	92
Income before taxes	3,268	3,020	2,256	1,458	1,005	1,001	1,968	2,383	2,062	1,760
Income taxes*	1,700	1,585	850	100	15	(450)	525	1,080	915	745
Income after taxes	1,568	1,435	1,406	1,358	990	1,451	1,443	1,303	1,147	1,015
Income reinvested in the business	848	795	766	718	350	811	803	701	579	454
Per Share										
Income before taxes	$ 4.09	3.77	2.82	1.82	1.26	1.25	2.46	2.98	2.78	2.52
Income after taxes	1.96	1.79	1.76	1.70	1.24	1.81	1.80	1.63	1.55	1.45
Cash flow	3.89	3.39	3.11	3.30	2.50	2.85	2.75	3.55	3.20	2.86
Dividends paid	.90	.80	.80	.80	.80	.80	.80	.80	.80	.80
Shareholders' interest	23.75	22.69	21.70	20.74	19.85	19.41	18.39	17.39	16.72	15.84
Number of shares outstanding (thousands)	800	800	800	800	800	800	800	800	740	700
Capital Expenditures	$ 4,797	2,188	1,480	1,417	1,891	3,123	2,007	1,421	650	1,179
Financial Position										
Current assets	$10,493	9,067	8,459	8,661	8,295	7,680	6,394	5,791	5,376	4,328
Current liabilities	8,585	7,354	6,311	6,124	5,975	4,790	2,790	2,724	2,700	2,476
Working capital	1,909	1,714	2,148	2,537	2,320	2,890	3,604	3,067	2,676	1,852
Fixed assets at net book value	20,334	16,849	15,885	15,483	15,130	14,207	11,910	10,660	9,936	9,950
Long term loans	3,300	700	1,000	1,700	2,000	2,000	1,000	—	400	1,000

*Amounts in 1969 and 1968 were calculated on a basis different from that used in previous years. (See Note 1 attached to financial statements.)
Year 1964 reflects recovery of the major portion of taxes paid in 1963.

CONSOLIDATED STATEMENT OF INCOME AND INCOME RETAINED IN THE BUSINESS FOR THE YEAR ENDED DECEMBER 31 1969

(with comparable amounts for the year ended December 31 1968)

	1969	1968
Sales, less allowances and after deducting Federal sales tax of \$3,631,099 (1968 — \$3,195,263)	\$35,789,027	\$34,133,043
Expenses:		
Cost of products sold	23,193,550	22,679,494
Selling and distribution expenses	7,579,304	6,904,369
Administrative and general expenses	1,414,409	1,318,405
Interest expense	333,647	211,189
	32,520,910	31,113,457
Income before deducting income taxes	3,268,117	3,019,586
Income taxes (Note 1):		
Current	1,510,000	1,585,000
Deferred	190,000	—
	1,700,000	1,585,000
Income for the year	1,568,117	1,434,586
Income retained in the business at the beginning of the year	11,555,463	10,760,877
	13,123,580	12,195,463
Dividends — 90¢ per share (1968 — 80¢ per share)	720,000	640,000
Income retained in the business at the end of the year	\$12,403,580	\$11,555,463

Note:
Expenses include depreciation (Note 1) of \$1,312,089 (1968 — \$1,223,178) and directors' fees and remuneration of officers who are also directors, of \$199,018 (1968 — \$187,915).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – DECEMBER 31 1969

(with comparable balances as at December 31 1968)

	1969	1968
CURRENT ASSETS:		
Cash	$ 22,120	$ 22,625
Trade and other accounts receivable	2,902,617	3,206,299
Inventories, at the lower of cost or market	7,409,485	5,695,134
Prepaid expenses	159,274	143,118
	10,493,496	9,067,176
CURRENT LIABILITIES:		
Short-term bank indebtedness — secured	4,377,569	3,871,353
Accounts payable and accrued liabilities	4,166,525	2,365,266
Income taxes payable (Note 1)	40,522	1,116,900
	8,584,616	7,353,519
Working capital	1,908,880	1,713,657
Add —		
NON-CURRENT ASSETS:		
Fixed assets (Note 2)	20,334,454	16,849,073
Special refundable tax	—	32,487
Miscellaneous assets	250,246	260,246
Deduct —	20,584,700	17,141,806
NON-CURRENT LIABILITIES:		
Bank loan payable — secured (Note 4)	3,300,000	700,000
Deferred income taxes (Note 1)	190,000	—
	3,490,000	700,000
Net assets	$19,003,580	$18,155,463
SHAREHOLDERS' INTEREST:		
Share capital (Note 3)	$ 6,600,000	$ 6,600,000
Income retained in the business (Note 1)	12,403,580	11,555,463
	$19,003,580	$18,155,463

COMMITMENTS (Note 4)

APPROVED ON BEHALF OF THE BOARD:

George L. O'Leary, *Director.*

H. Clark Bentall, *Director.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31 1969

NOTE 1 — INCOME TAXES AND DEPRECIATION:

Scott Paper Limited provides depreciation substantially on a straight-line basis at rates estimated to amortize the cost of the fixed assets over their useful lives. On January 1 1968 the company adopted for the future the deferred credit method of accounting for income taxes whereby accumulated reductions of $190,000 of income taxes otherwise payable since that date are carried forward in the financial statements as a credit to those future years where capital cost allowances available for income taxes fall short of depreciation provided in the financial statements.

Prior to January 1 1968 the company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on these fixed assets. Because capital cost allowances in previous financial years exceeded depreciation recorded in the financial statements for those years, the company had accumulated reductions in income taxes otherwise payable of approximately $3,902,000 to the year ended December 31 1967.

NOTE 2 — FIXED ASSETS:	December 31 1969	December 31 1968
Land, at cost	$ 379,052	$ 317,174
Buildings, machinery and equipment, at cost (Note 4)	34,758,192	30,025,007
Less —		
Accumulated depreciation	14,802,790	13,493,108
Net book value of depreciable assets	19,955,402	16,531,899
	$20,334,454	$16,849,073

NOTE 3 — SHARE CAPITAL:

The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding.

Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31 1969 options to purchase 9,250 shares are outstanding (but not yet exercised) at prices of $30.62 and $36.75 per share, valid for varying dates to 1974.

NOTE 4 — LONG-TERM DEBT AND COMMITMENTS:

The company is at present undertaking a major expansion of its facilities at its Eastern Manufacturing Division at Crabtree, Quebec. It is estimated that this expansion will cost $9,000,000, of which approximately $3,450,000 had been expended to December 31 1969. This expansion is in addition to the regular capital expenditures which are made annually, some of which were also in progress at December 31 1969.

The company has arranged financing on a long-term basis with its bankers to a total of $6,000,000 of which $3,300,000 had been advanced to December 31 1969. The $6,000,000 is to be repaid in varying amounts between 1971 and 1974.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL FOR THE YEAR ENDED DECEMBER 31 1969

(*with comparable amounts for the year ended December 31 1968*)

	1969	1968
Source:		
Operations —		
Income for the year	$ 1,568,117	$ 1,434,586
Add —		
Charges which did not involve an outlay of working capital —		
Depreciation (Note 1)	1,312,089	1,223,178
Deferred income taxes (Note 1)	190,000	—
	3,070,206	2,657,764
Decrease in miscellaneous assets	10,000	—
Increase in long-term bank loan	2,600,000	—
Special refundable tax	32,487	56,000
	5,712,693	2,713,764
Disposition:		
Net additions to fixed assets	4,797,470	2,187,542
Dividends	720,000	640,000
Decrease in long-term bank loan	—	300,000
Net increase in miscellaneous assets	—	20,874
	5,517,470	3,148,416
Increase (decrease) in working capital during the year	195,223	(434,652)
Add —		
Working capital at beginning of the year	1,713,657	2,148,309
Working capital at end of the year	$ 1,908,880	$ 1,713,657

AUDITORS' REPORT

PRICE WATERHOUSE & CO.
CHARTERED ACCOUNTANTS

1075 WEST GEORGIA STREET
VANCOUVER 5, B.C.

February 6 1970

To the Shareholders, Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited and its subsidiary company as at December 31 1969 and the consolidated statements of income and income retained in the business and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31 1969 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

OFFICERS AND EXECUTIVE MANAGEMENT

CHARLES BENTALL, *Honorary Chairman*

ARTHUR F. ARMSTRONG, *President and Chief Executive Officer*

GEORGE L. O'LEARY, *Executive Vice-President and Chief Operations Officer*

JAMES C. BOYLE, *Director of Sales, Industrial Packaged Products*

W. CARL CARLSON, *Treasurer and Assistant Secretary*

W. MICHAEL FERRIE, *Director of Corporate Personnel*

G. VERNON FORSTER, *General Manager, Western Manufacturing Division*

BERNARD A. GOULET, *Assistant Secretary and General Manager, Eastern Manufacturing Division*

JOHN J. HERB, *Assistant Secretary and Vice-President, Westminster Paper Company Limited*

DOUGLAS HOLME, *Assistant Vice-President (Director of Manufacturing)*

NORMAN A. KELLY, *President, Westminster Paper Company Limited*

WILLIAM M. MATTICE, *Director of Quality Control*

PETER J. PETERS, *Comptroller and Secretary*

H. PETER SANAGAN, *Assistant Vice-President (Director of Sales, Consumer Products)*

ROBERT T. STEWART, *Vice-President (Marketing)*

HORACE F. WINCHELL, *Vice-President (Engineering and Manufacturing Development)*

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, Vancouver, Montreal and Toronto

STOCK LISTINGS

Vancouver, Toronto and Montreal Stock Exchanges

ANNUAL MEETING

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 17, 1970 at the Head Office of the Company, New Westminster, B.C.

The paper used for this report was manufactured by S. D. Warren Company Division of Scott Paper Company. The cover is Warren's CAMEO SAXONY COVER. The paper used for the text pages is Warren's CAMEO DULL.

BOARD OF DIRECTORS

ARTHUR F. ARMSTRONG*,
New Westminster, B.C.

H. CLARK BENTALL,
President, Dominion Construction Company Ltd., Vancouver, B.C.

GILBERT C. CLARKE,
President and General Manager, Standard Brands Limited, Montreal, P.Q.

HARRISON F. DUNNING,
Chairman of the Board and Chief Executive Officer, Scott Paper Company, Philadelphia, Pa.

A. DONALD LAUDER,
Director, Odlum Brown & T. B. Read Ltd., Vancouver, B.C.

GEORGE L. O'LEARY*,
New Westminster, B.C.

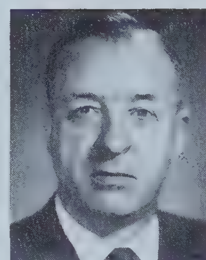
G. WILLING PEPPER,
Director and Vice-President, Scott Paper Company, Philadelphia, Pa.

RENAULT ST-LAURENT, Q.C., LL.D.,
Partner, St-Laurent, Monast, Desmeules & Walters, Barristers & Solicitors, Quebec, P.Q.

HORACE F. WINCHELL*,
Montreal, P.Q.

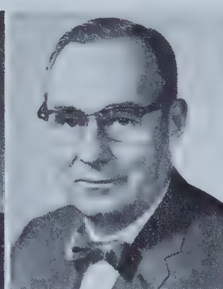
**Company Officers*

Arthur F. Armstrong



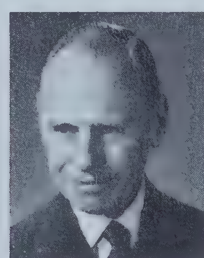
H. Clark Bentall

Gilbert C. Clarke



Harrison F. Dunning

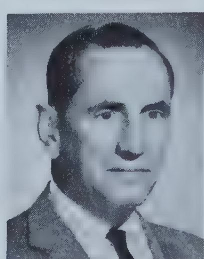
George L. O'Leary



A. Donald Lauder

Horace F. Winchell

Renault St-Laurent



G. Willing Pepper

SCOTT PAPER LIMITED
ANNUAL REPORT 1969

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SCOTT PAPER LIMITED

FOR USE: A.M.-May 5, 1969.

Shares of Scott Paper Limited were posted for trading on the Montreal Stock Exchange effective May 1, 1969.

The listing follows Scott's March 31 announcement of a $9 million program to expand production capacity for consumer, industrial, and other paper products at Crabtree, Quebec by 15,000 tons to 48,000 tons a year.

Scott Paper Limited has now posted shares on three major Canadian exchanges. Originally listed in 1938 on the Vancouver Stock Exchange, Scott common was posted for trading on the Toronto Stock Exchange on January 6 last.

The Company applied for listing on the Montreal Stock Exchange because it is believed that expansion plans have aroused considerable interest among investors in Quebec and in Eastern Canada.

Of 800,000 common shares issued, 363,329 or 45.4 percent are owned primarily by some shareholders resident across Canada. The balance, 436,671 shares or 54.6 percent, is owned by Scott Paper Company of Philadelphia.

During 1968, net sales by Scott Paper Limited increased by 14 percent to $34,133,043, and pre-tax profits by 33.9 percent. After allowing for a large increase in the effective tax rate, per share earnings rose to $1.79 in 1968 compared to $1.76 in 1967.

Sales and earnings continued to expand during the first quarter of 1969, when net sales rose 5.5 percent and net income increased 2.7 percent over the first quarter of 1968.

(more)

Increased 1968 earnings and prospects for 1969 resulted in an increase in the indicated dividend rate for 1969 to 90 cents, compared to a previous rate of 80 cents per share.

Operating originally in New Westminster, B.C., Scott Paper Limited acquired the Crabtree, Quebec plant in 1957 to serve the growing Eastern market, becoming the first company to manufacture sanitary paper products in both Eastern and Western Canada.

During the decade since 1959, national sales volume has increased by 81.3 percent, with sales in the Eastern market showing an even more dramatic growth. This market is served by the Eastern Manufacturing Division at Crabtree.

The $9 million expansion program, scheduled for completion in late 1970, includes a fourth paper machine and expanded converting, warehousing and distribution facilities.

These will provide for anticipated growth in sales of consumer and industrial products, and for new products and diversification.

Scott Paper Limited serves the four Western provinces from the Western Manufacturing Division at New Westminster, where a $7 million expansion program carried on since 1962 has raised capacity to 45,000 tons a year.

Among the newer trademarked Scott products are Lady Scott Facial and Bathroom tissues, with a matched printed floral design. Another is Viva Towels, an entirely new type of soft, specially laminated two-ply towel which functions as effectively as fabric in many applications.

(more)

Scott Paper Limited entered the disposables field last September by purchasing Omega Paper Products of New Westminster, B.C., and is manufacturing and marketing disposable x-ray gowns, bedsheets and pillowcases for the medical and hospital trade.

Design and marketing studies are underway covering a wide variety of disposable garments for personal and industrial use.

Reference: Bernard A. Goulet,
General Manager and Assistant Secretary,
Eastern Manufacturing Division,
(342-0422)
Montreal.

Message to Shareholders

Net sales in the first half of 1969 were $18,451,503 — an increase of 6.1 per cent over the same period of last year. Unit sales of the company's consumer and industrial packaged products were at an all-time high for any six-month period. Increasing consumer purchases of the company's new products, particularly Viva two-ply multi-purpose household towels, have contributed heavily to recent sales growth.

Net income for the first six months of 1969 increased 7.1 per cent over the same period of 1968. Earnings per share amounted to $1.00 versus 93 cents in the first half of last year.

Construction work on the fourth paper machine and related facilities at the Eastern Manufacturing Division, Crabtree, Quebec is well under way, with an anticipated completion date in the last quarter of 1970. At present, all production facilities of the company in both British Columbia and Quebec are operating at near-capacity rates and improved efficiencies.

The challenge of maintaining profitable growth for the second half of 1969 is made greater by the continuing rapid increases in costs of purchased supplies, wages, salaries, operating expenses, taxes and interest on borrowed funds. It is to be hoped that the current and determined attack on the high rate of inflation in Canada will bring to an end the excessive cost and price increases which endanger the sound growth of both the nation's economy and our company.

A.F. ARMSTRONG
PRESIDENT

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SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS
The First Six Months of 1969

Subject to audit and year end adjustments

SCOTT PAPER LIMITED

Statement of Income for the First Six Months of 1969 (with corresponding amounts for 1968)

	First Half 1969	First Half 1968
Sales, less discounts and allowances	$18,451,503	$17,384,638
Expenses:		
Cost of products sold (Note 1)	12,203,261	11,550,093
Marketing, general, administrative and development expenses	4,561,038	4,280,718
	16,764,299	15,830,811
Income before taxes	1,687,204	1,553,827
Provision for taxes on income	889,218	808,788*
Income after taxes for the period	$ 797,986	$ 745,039
Income per share after taxes	$1.00	$ .93
Dividend paid per share	.45	.40
Number of common shares outstanding	800,000	800,000

* The provision for taxes for the first six months of 1968 has been adjusted to reflect the six months share of the taxes actually paid for that year.

NOTES:

(1) Cost of products sold includes depreciation of $645,102 for the first six months of 1969 compared with $564,762 for the first six months of 1968.

Statement of Source and Disposition of Working Capital For the Six Months ended June 28, 1969. (with corresponding amounts for the six months ended June 29, 1968)

	First Half 1969	First Half 1968
Source:		
Income for the period	$ 797,986	$ 745,039
Add —		
Charges which did not involve an outlay of working capital —		
Depreciation (Note 1)	645,102	564,762
Increase in long-term bank loan.	600,000	—
	2,043,088	1,309,801
Disposition:		
Net additions to fixed assets	790,751	795,703
Dividends	360,000	320,000
Net increase (decrease) in miscellaneous amounts	(451)	1,249
	1,150,300	1,116,952
Increase in working capital during the period	892,788	192,849
Add —		
Working capital at beginning of the year	1,746,907	2,148,309
Working capital at end of the period	$2,639,695	$2,341,158